

**SUMMARY OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS COMMITTEE**

**HELD ON  
Thursday, July 27, 2006  
10:30 a.m., MST**

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in regular session in the 14<sup>th</sup> Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Michael Townsend, Chair, called the meeting to order at 10:30 a.m.

This meeting was teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present:       Mr. Michael Townsend, Chair  
                  Mr. Steven Zeman, Vice-Chair  
                  Dr. Keith Meredith (via Teleconference)  
                  Mr. David Byers (via Teleconference)

A quorum of the Committee was present for the purpose of conducting business.

**2. Presentation, Discussion and Appropriate Action Regarding Budget Requests for the Fiscal Year (FY) 2008 and 2009**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, presented the budget requests for the fiscal year 2008 and 2009. The requests covered the general operations budget for that year including: the Long Term Disability program, the Information Technology Plan, project investment justifications, full-time employees, adjustments, equipment and travel. Mr. Guarino gave a brief overview of the FY 2007 budget and did a comparison of the requests made for that year and the actual appropriation for that year.

Highlights of the 08 & 09 request include:

- ⇒ Revisiting priority issues not appropriated in FY 07 (see section 1).
- ⇒ Additional staff to address critical needs or anticipated growth in service demand.
- ⇒ Dollars to address staff salary and retention issues.
- ⇒ Dollars for technology upgrades, replacement and contingencies.

In total, the budget request for FY 2008/2009 was \$24,293,800.

**Motion:** Mr. Steven Zeman moved the Committee submit the Fiscal Year 2008/2009 operating budget request to the ASRS Board for approval.

Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

### **3. Presentation, Discussion and Appropriate Action Regarding the 2007 Health Insurance Plan and Possible Recommendation Regarding the Extension of the PacifiCare Contract**

Mr. Guarino introduced Mr. Patrick Klein, Assistant Director of External Affairs, who updated the Committee on the 2007 Health Insurance Plan. Mr. Klein reminded the Committee that in January 2005, PacifiCare was awarded a five-year contract to provide a medical plan to ASRS retirees. For 2005 and 2006, the premiums and provisions of the plan stayed static. Mr. Klein stated that due to the pressures of spiraling health care costs, it was the determination of the all-retiree Health Insurance Advisory Committee to recommend to the Operations Committee to adopt a new premium and provision structure for 2007.

Mr. David Byers departed the meeting at 11:52 AM.

Mr. Klein stated that although the premiums and other items such as co-pays were being increased across the board, health care premiums had been kept at 2002 levels for the past five years. Mr. Klein then described the premium increases and policy changes for each of the programs offered by the ASRS to retirees.

**Motion:** Mr. Steven Zeman moved the Committee recommend the ASRS Board approve the extension of the PacifiCare contract and the proposed changes in premiums and provisions.

Dr. Keith Meredith seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

#### **4. Presentation, Discussion and Appropriate Action Regarding the 70 ½ Minimum Distribution Project**

Mr. Guarino introduced Ms. Susanne Dobel, Manager, External Affairs, who updated the Committee on the status of notification and disbursements to members who are required to begin receiving minimum distributions of pension benefits at age 70-and-a-half. Ms. Dobel stated the notification letter that was going to be sent out was delayed in order to rework the language to provide more information. She also indicated that the due date for responses from retirees affected by the letter was planned to be September 21, 2006. Ms. Dobel said that once the initial letters go out, the project will be handled by Raymond Thomas, Assistant Director of Member Services Division.

Ms. Dobel noted that the focus would be to locate members who must take the distributions through change of address notifications, skip tracing and other methods.

#### **5. Review of Recently Conducted Audits**

- **Member Service Advisory Center (MSAC)**
- **Phoenix Union High School District**

Mr. Bernard Glick, Chief Internal Auditor, and Mr. Jeffery Volzka, Internal Auditor, gave a brief overview of the audit on the ASRS MSAC. He said the findings of the audit included: 1) policies and procedures that were not updated, 2) the responsibility of handling health insurance calls had not been returned to the vendor nor had those calls been included as part of the MSAC service level objectives, 3) MSAC needed to refine the call volume focusing, scheduling and staff utilization plans, 4) Management should consider developing a standardized curriculum for use in side-by-side training to ensure that trainees receive consistent coverage in the areas they will need to do the job, 5) Management needed to take steps to proactively reduce or mitigate call volume growth and spikes, and 6) Management should continue to improve MSAC's overall technical capabilities. Mr. Guarino expressed general agreement with the findings and recommendations throughout the auditor's presentation.

Mr. Glick and Mr. Ken Laches, Internal Auditor, then gave a brief overview of the audit on the Phoenix Union High School District (PUHSD). He stated the audit concluded the PUHSD owed the ASRS \$252,007.12 in overpayments from medical and dental insurance premium assistance overpayments and interest, \$9,522.35 in unreported contributions for members who met the 20/20 eligibility requirements, \$631.21 in unreported contributions from a member who forfeited his eligibility and then returned to work, and \$17,735.25 in non-deducted contributions for members who had dual employment. Mr. Glick stated the PUHSD had 90 days from the date of the final audit to remit payment to the ASRS.

## **6. Presentation, Discussion and Appropriate Action Regarding the Fiscal Year 2006/2007 ASRS Internal Audit Plan**

Mr. Guarino and Mr. Glick addressed the Committee regarding the ASRS Internal Audit Plan for Fiscal Year 2006/2007. Mr. Glick said that when the Internal Audit division was formed, it was planned to handle all internal audits except for financial controls, which would be handled by external auditors. Mr. Glick said that because of the limited amount of hours that are allotted to auditing, the Internal Audit division performs a risk assessment of the agency's operations every two years to determine which divisions and areas would be potentially audited. This allows Internal Audit to focus on specific areas since they cannot audit all divisions within the agency every two years.

There was discussion by Committee members on the allotment of hours and the possibility of Internal Audit doing random audits of the financial processes. The general consensus was to review potential new audit areas during the upcoming risk assessment in January 2007.

## **7. Request for Future Agenda Items**

The Committee members asked the following items be considered for future agendas:

- Information on the administrative costs of adding the full regimen of FTEs to the budget
- Review of safety and security of the 3300 Tower

## **8. Call to the Public**

No members of the public addressed the Committee.

## **9. Adjournment of the OC**

Mr. Michael Townsend adjourned the meeting at 12:44 p.m.

Respectfully Submitted by,

---

Zachary Kucera  
Committee Secretary

Date

---

Anthony Guarino  
Deputy Director and Chief Operations Officer

Date